

**Opportunities to Improve the Effectiveness of
Internal Revenue Service Advocacy Efforts**

September 1999

Reference Number: 199910061



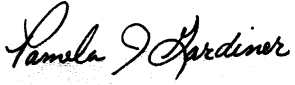
DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 27, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: Pamela J. Gardiner 
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Opportunities to Improve the Effectiveness
of Internal Revenue Service Advocacy Efforts

This report presents the results of our review of the Internal Revenue Service's (IRS) advocacy efforts. Our objective was to provide IRS management with an assessment of efforts to identify, evaluate, and resolve systemic and procedural issues affecting taxpayers.

In summary, we found that the National Taxpayer Advocate has made important contributions to resolve issues negatively affecting taxpayers. However, the National Taxpayer Advocate can further improve the effectiveness of advocacy efforts by providing additional guidance and oversight related to the identification and evaluation of issues affecting taxpayers, strengthening controls over the resolution of these issues, and developing a methodology to measure advocacy program accomplishments.

In this regard, we recommended that the National Taxpayer Advocate provide additional guidance and information to assist local advocates in identifying significant issues affecting taxpayers. The Taxpayer Advocate Service also needs to track and monitor the status of recommendations made to national IRS management to ensure that corrective actions are taken timely. In addition, the National Taxpayer Advocate should establish advocacy program goals and develop a system to measure advocacy program accomplishments consistent with IRS guidelines for managing statistics.

IRS management agreed with the report recommendations and provided general corrective actions for the summary recommendations contained in the Executive Summary. However, the response did not address specific corrective actions for each of the eight report recommendations. Additionally, the management response did not identify the responsible official or include a plan and methodology for tracking the

effectiveness of corrective actions, as specified in your January 14, 1999, memorandum "Responding to Treasury Inspector General for Tax Administration Audit Products." As a result, we could not determine whether adequate corrective action was planned for each of our recommendations. Management's comments have been incorporated into the report, where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Executive Summary

The National Taxpayer Advocate has made important contributions to resolve issues negatively affecting taxpayers. For example, 5 of 18 legislative recommendations made in the *FY 1997 Taxpayer Advocate's Annual Report to Congress* were included, either in whole or in part, in the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998.

During Fiscal Years (FY) 1997 and 1998, Taxpayer Advocates worked on over 300 advocacy activities designed to improve IRS processes and recommend changes to tax legislation. Taxpayer Advocates are responsible for assisting taxpayers in resolving problems with the IRS, identifying areas in which taxpayers have problems in dealings with the IRS, and proposing changes in the IRS' practices to reduce these problems. The National Taxpayer Advocate's staff works with local advocates and IRS functional areas to identify issues affecting taxpayers. The staff also initiates corrective actions to improve the performance of IRS systems and prevent the occurrence of similar problems.

The objective of this review was to assess the effectiveness of the IRS' efforts to identify, evaluate, and resolve systemic and procedural issues affecting taxpayers. In our opinion, the National Taxpayer Advocate can provide additional guidance and oversight to the field offices for identifying, prioritizing, and evaluating issues affecting taxpayers. Controls should be strengthened to ensure that systemic and procedural issues affecting taxpayers are resolved timely and effectively. In addition, a methodology needs to be developed to measure program accomplishments, as well as formal goals for the advocacy program.

Results

The National Taxpayer Advocate is responsible for making important contributions (legislative changes and advocacy initiatives) to resolve issues negatively affecting taxpayers. However, controls did not always ensure that systemic and procedural issues affecting taxpayers were effectively identified, evaluated, and resolved. Accordingly, the National Taxpayer Advocate can improve the effectiveness of advocacy efforts in the following areas.

Guidance and Oversight Related to the Identification and Evaluation of Issues Affecting Taxpayers Can Be Improved

Local advocates and advocacy councils did not always follow a structured or consistent approach to prioritizing and evaluating issues affecting taxpayers. Further, information recorded in the Problem Resolution Office Management Information System was not

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always accurate, and advocacy efforts were not always tracked and effectively coordinated.

Controls Over the Resolution of Issues Affecting Taxpayers Should Be Strengthened

Recommendations contained in advocacy reports were not formally monitored to ensure that corrective actions were taken or considered timely. Also, data contained on the Commissioner's Reporting and Tracking System were not always complete or accurate.

A Methodology to Measure Advocacy Program Accomplishments Needs to Be Developed

There is no methodology in place to measure advocacy program accomplishments resulting from advocacy projects or other advocacy efforts.

Summary of Recommendations

We recommended that the National Taxpayer Advocate provide additional guidance and information to assist local advocates in identifying significant issues affecting taxpayers. The National Taxpayer Advocate also needs to track and monitor the status of recommendations made to national IRS management to ensure that corrective actions are taken timely. In addition, the National Taxpayer Advocate should establish advocacy program goals and develop a system to measure advocacy program accomplishments consistent with IRS guidelines for managing statistics.

Management's Response: IRS management agreed with our recommendations. The Commissioner responded that they are currently modernizing the Taxpayer Advocate Service to provide better support to customers. The new structure directs management attention to two major program areas: casework and advocacy. Operating Division Taxpayer Advocates will manage systemic analysis and advocacy, and provide program guidance and support to advocacy analysts located throughout the country. Operating Division Taxpayer Advocates are also responsible for identifying systemic problems, working with the Operating Divisions to resolve them, and monitoring the results of the advocacy program.

Additionally, the National Taxpayer Advocate and the Program Executive for Taxpayer Treatment and Service Improvements (TSI) are working to incorporate advocacy projects into the TSI database. Plans include developing a separate area for advocacy. Operating Division Taxpayer Advocates will be able to track the status of advocacy projects, recommendations, and corrective actions through the TSI database. Finally, new organizational measures were drafted and are now being refined by National Taxpayer Advocate management.

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Management's complete response to a draft of this report is included as Appendix IV.

Office of Audit Comment: IRS management agreed with the report recommendations and provided general corrective actions for the summary of recommendations contained in the Executive Summary. However, the response did not address all of the corrective actions necessary to implement the eight specific recommendations presented in this report. Additionally, management's response did not identify the responsible official or include a plan and methodology for tracking the effectiveness of corrective actions, as specified in the Commissioner's January 14, 1999, memorandum "Responding to Treasury Inspector General for Tax Administration Audit Products." As a result, we could not determine whether adequate corrective action was planned for each specific recommendation.

We understand that the Taxpayer Advocate Service is reorganizing and that it may not be possible to determine when specific corrective actions will be completed for each recommendation. However, to avoid oversight during the reorganization, the National Taxpayer Advocate should develop specific corrective actions for each recommendation, establish a proposed completion date, identify the responsible official, and develop a plan and methodology for tracking the effectiveness of the corrective action.

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Objective and Scope

We performed this audit to provide Internal Revenue Service (IRS) management with an assessment of the effectiveness of efforts to identify, evaluate, and resolve systemic and procedural issues affecting taxpayers.

Our objective was to determine whether the IRS was effectively identifying, evaluating, and resolving systemic and procedural issues affecting taxpayers.

Specifically, we evaluated the effectiveness of the process used to identify potential issues, assessed the effectiveness of efforts to determine the significance of issues, evaluated controls over the resolution of issues, and identified and assessed accomplishments to date.

To accomplish this objective, we:

- Interviewed officials in the National Taxpayer Advocate's Office; Office of the Executive Officer for Service Center Operations (EOSCO); selected regional offices (Midstates, Northeast, and Southeast); district offices (Georgia, Illinois, Manhattan, New England, North Texas, and South Florida); and service centers (Andover, Atlanta, and Kansas City).
- Determined whether the National Taxpayer Advocate provided adequate oversight and guidance to field advocates and regional advocacy councils.
- Evaluated controls over the resolution of systemic and procedural issues affecting taxpayers. We contacted officials in the Appeals, Compliance, and Customer Service organizations to determine if recommendations made in Advocacy Memoranda or advocacy reports were implemented.
- Determined how advocacy accomplishments were measured.

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This review was performed in accordance with *Government Auditing Standards*. Audit work was conducted between July 1998 and January 1999.

Appendix I presents the detailed objective, scope, and methodology of our review. The major contributors to this report are identified in Appendix II.

Background

Taxpayer Advocates identify areas where taxpayers have problems in dealings with the IRS and propose changes in the IRS' practices to reduce these problems.

The National Taxpayer Advocate's staff works with local advocates and IRS functional areas to identify issues that negatively affect taxpayers. Recommendations are made to improve the performance of IRS systems and processes, and prevent the occurrence of similar problems. Potential systemic and procedural issues affecting taxpayers are identified by analyzing information contained in the Problem Resolution Office Management Information System (PROMIS); obtaining input from taxpayers and tax practitioners; and obtaining feedback from Taxpayer Advocates in the regions, service centers, and districts. The data are analyzed to identify trends, patterns, aberrations, and possible abnormalities.

Local Taxpayer Advocates conduct advocacy projects and perform other activities to document issues that negatively affect taxpayers, and recommend corrective actions to functional management (e.g., Customer Service, Examination). In addition, legislative recommendations are developed as a result of Problem Solving Days, proposals made by the Equity Task Force, and Senate Finance Committee cases.

The National Taxpayer Advocate's staff tracks advocacy projects on the Advocacy Project Tracking System. The National Taxpayer Advocate also issues Advocacy Memoranda to National Office functional areas to request changes to policy, procedures, or activities that harm taxpayers or increase taxpayer burden after other attempts to resolve the problem have been unsuccessful. Advocacy Memoranda also

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serve to alert functional management that the issue will be included in the National Taxpayer Advocate's Annual Report to the Congress. Public Law 104-168 (The Taxpayer Bill of Rights 2) requires that responsible IRS officials formally respond to the National Taxpayer Advocate's recommendations within three months. The Commissioner's Reporting and Tracking System was established to ensure that responses are received timely and corrective actions are taken.

Additionally, in March 1998, the Commissioner delegated the National Taxpayer Advocate authority to mandate the implementation of administrative and procedural changes requested by his office. Under this authority, the National Taxpayer Advocate can issue a Taxpayer Advocate Directive to the Chief of the responsible area to improve operations or grant relief to taxpayer groups or all taxpayers. The Directive may only be appealed to the Deputy Commissioner.

Results

The National Taxpayer Advocate has made important contributions to resolve or correct issues negatively affecting taxpayers. Five of 18 legislative recommendations made in the *FY 1997 Taxpayer Advocate's Annual Report to Congress* were included, either in whole or in part, in the IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (1998). For example, based on a proposal by the National Taxpayer Advocate, the Congress included a provision in the restructuring legislation to allow divorced or separated taxpayers to amend their prior joint returns to a filing status of "separate" when they have been unfairly burdened with a joint liability (innocent spouse relief).

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The National Taxpayer Advocate can improve the effectiveness of advocacy efforts.

In our opinion, the National Taxpayer Advocate can further improve the effectiveness of advocacy efforts. During Fiscal Years (FY) 1997 and 1998, Taxpayer Advocates worked on over 300 advocacy activities designed to improve IRS processes and tax legislation. However, management controls did not always ensure that systemic and procedural issues affecting taxpayers were effectively identified, evaluated, and resolved. Therefore, the IRS can improve the effectiveness of advocacy efforts by:

- Providing additional guidance and oversight related to the identification and evaluation of systemic and procedural issues affecting taxpayers.
- Strengthening controls over the resolution of systemic and procedural issues affecting taxpayers.
- Developing a methodology to measure advocacy program accomplishments.

Guidance and Oversight Related to the Identification and Evaluation of Issues Affecting Taxpayers Can Be Improved

Field advocates need additional guidance and oversight.

The National Taxpayer Advocate should provide additional guidance and oversight to the field offices related to identifying, prioritizing, and evaluating issues affecting taxpayers. Local advocates and advocacy councils did not always follow a structured approach to prioritizing and evaluating issues affecting taxpayers. In addition, data maintained on the PROMIS, related to the nature and cause of taxpayers' problems, were not always accurate, and advocacy efforts were not always tracked and effectively coordinated.

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Local advocates and advocacy councils did not always follow a structured or consistent approach to prioritizing and evaluating issues affecting taxpayers

Work performed at 14 audit sites showed that the National Taxpayer Advocate needs to provide more guidance and oversight to local advocates and advocacy councils. We determined that:

- Local advocates and regional advocacy council members did not use a uniform process or structured approach to evaluate and prioritize the significance of issues proposed for advocacy projects. Adequate national guidelines were not developed for the field advocate's use to evaluate and prioritize the significance of issues proposed for advocacy projects. Local taxpayer advocates generally used case volume or their own experience to determine the significance of issues.
- Advocacy councils were not always actively involved in identifying, evaluating, and prioritizing advocacy issues. Three of five advocacy councils were inactive for most of FY 1998. Two of the councils were recently established and one was not active for most of the Fiscal Year. In addition, there was no specific guidance setting forth how the councils were to operate.
- Local advocates and advocacy council members were not always aware of newly revised IRS guidelines related to identifying issues and performing advocacy projects. Seven of 17 advocates and advocacy council members we interviewed believed that there was no guidance related to the performance of advocacy projects, or that the guidance provided was not adequate. Seven of nine local advocates we interviewed were not aware that the Regional or EOSCO Taxpayer Advocate was responsible for approving the initiation of local advocacy projects.

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- Field advocates did not always research the Advocacy Project Tracking System on the National Taxpayer Advocate's Intranet site. Six of 17 advocates and advocacy council members stated that they did not use, or infrequently used, the Advocacy Project Tracking System.

The National Taxpayer Advocate's role is to serve as an advocate for taxpayers within the IRS. A major part of the advocacy role involves identifying and addressing systemic and procedural problems. The National Taxpayer Advocate's staff supports this mission by coordinating nationwide activities; being aware of all activity relating to advocacy; and providing assistance, support, and guidance in efforts to reduce taxpayer burden by identifying and addressing systemic and administrative problems.

In addition, advocacy councils were established to serve as steering committees to identify issues and processes. The councils are responsible for providing oversight to offices performing advocacy projects. Together with the National Taxpayer Advocate, they are also responsible for evaluating recommendations and initiating change through the appropriate functional area.

Eleven of 17 advocates and advocacy council members we interviewed indicated that the National Taxpayer Advocate provided little guidance and oversight related to advocacy efforts and the operation of advocacy councils. The National Taxpayer Advocate did not perform reviews of local or regional advocates, and relied on the advocacy councils to provide oversight to the field. However, the majority of these councils were inactive for most of FY 1998.

Without sufficient oversight and guidance of advocacy efforts at the local level, resources may not be effectively used. Further, the lack of a uniform process for evaluating and prioritizing the significance of issues affecting taxpayers may result in performing work on less significant issues.

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Management information system data were not always accurate

Data maintained on the PROMIS regarding the nature and cause of taxpayers' problems were not always accurate. Specifically:

- Major Issue Codes used to identify the nature of cases that met Problem Resolution Program (PRP) criteria were not accurate for 33 of 135 (24 percent) cases reviewed at the 9 local advocacy offices visited.
- Root Cause Codes were not used to identify the cause of cases that met PRP criteria in 69 of 135 (51 percent) cases reviewed at the 9 local advocacy offices visited. Further, our analysis of the remaining 66 cases showed that 15 contained an inaccurate Root Cause Code.

Each PRP case is categorized on the PROMIS by Major Issue Code. The National Taxpayer Advocate's staff collects and analyzes information on Major Issue Codes to identify the most frequent and time-consuming taxpayer problems. The purpose of the analysis is to identify trends, patterns, aberrations, and possible abnormalities. A list of the top 10 Major Issue Codes, in terms of PRP casework volume, was included in past annual reports to the Congress.

PRP caseworkers are required to assign a Major Issue Code to cases when controlling them on PROMIS. However, what appears to be the major issue at the beginning of a case may not be the actual issue once the case is worked. Caseworkers have the option of changing the Major Issue Code when closing a case on the PROMIS to accurately reflect the true major issue. This may not be occurring based on the high percentage of inaccurate Major Issue Codes found.

Root Cause Codes identify the best information about the underlying system or process failure of which the taxpayer's problem is a symptom. However, caseworkers are not required to input Root Cause

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Codes to cases on the PROMIS because it is an optional field.

Ensuring that caseworkers identify and input the correct Major Issue and Root Cause Codes is essential to identifying significant issues affecting taxpayers. Inaccurate Major Issue Codes may result in trend analyses that are erroneous, the expenditure of resources in nonproductive areas, and inaccurate information being included in the National Taxpayer Advocate's Annual Report to the Congress.

Advocacy efforts were not tracked and effectively coordinated

The National Taxpayer Advocate does not maintain a complete database of all advocacy efforts conducted in the field.

The National Taxpayer Advocate does not maintain a complete database of all advocacy efforts conducted in the field. We obtained information from local taxpayer advocates identifying over 300 separate advocacy efforts conducted in FY 1997 and FY 1998. These efforts included advocacy projects and other advocacy activities performed to document issues that negatively affect taxpayers and recommend corrective actions to functional management.

Many of these efforts focused on similar issues with national implications that could have been better coordinated if tracked on a national basis. Our analysis of the data provided to us by the field advocates identified 84 separate advocacy efforts performed in FY 1997 and FY 1998 focusing on 18 issue areas. These efforts were not always tracked by the National Taxpayer Advocate.

Further, we determined that 85 of 112 completed or ongoing advocacy projects were not included on the Advocacy Project Tracking System. Seventy-nine of these projects were local in scope.

The Advocacy Project Tracking System was designed to track the status of field advocacy projects. Officials on the National Taxpayer Advocate's staff update the system quarterly. However, the system was not intended to track the status of local advocacy efforts that are less complex than advocacy projects.

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A centralized database of all ongoing advocacy efforts would provide all taxpayer advocate personnel with current information on the status of all ongoing and completed advocacy efforts within the IRS. This would help ensure that advocacy resources are more efficiently used by minimizing potential duplication of effort. Further, ensuring that advocacy best practices are shared with all advocates could maximize the impact of successful advocacy efforts.

Recommendations

1. Develop a structured process for field advocates use in evaluating and prioritizing the significance of issues affecting taxpayers. In addition, the guidelines for initiating and conducting advocacy projects should be re-emphasized to advocates.

Management's Response: IRS management stated that they agreed with our recommendations, but the management response did not specifically address this recommendation.

The response stated that the Taxpayer Advocate Service is currently being modernized to provide an independent structure and consistent program direction. Operating Division Taxpayer Advocates will provide program guidance and support to advocacy analysts located throughout the country. These officials will be responsible for identifying systemic problems, working with the Operating Divisions to resolve them, monitoring the results of the advocacy program, working on advocacy projects, and making recommendations to the Congress through the annual report.

Office of Audit Comment: We could not determine the adequacy of the corrective actions because management's response did not include the specific corrective action planned for this recommendation and establish a proposed completion date. We understand that the Taxpayer Advocate Service is reorganizing and that it may not be possible to determine when specific corrective actions will be completed for this recommendation. However, the

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National Taxpayer Advocate should develop specific corrective actions for this recommendation and establish proposed completion dates. Additionally, management's response did not identify the responsible official, and include a plan and methodology for tracking the effectiveness of the corrective action, as specified by the Commissioner's January 14, 1999, memorandum "Responding to Treasury Inspector General for Tax Administration Audit Products."

2. Develop detailed guidelines that clearly define the composition and role of advocacy councils in carrying out their duties.

Management's Response: IRS management stated that they agreed with our recommendations, but the management response did not specifically address this recommendation.

Office of Audit Comment: We could not determine the adequacy of the corrective action because management's response did not include the specific corrective action planned for this recommendation and establish a proposed completion date. Additionally, the management response did not identify the responsible official, or include a plan and methodology for tracking the effectiveness of the corrective action.

3. Issue a memorandum to all advocates re-emphasizing the importance of ensuring that both the Major Issue and Root Cause Codes (if used) are correct at the time of case closure. Consider requiring that caseworkers enter these codes only at the time of case closure.

Management's Response: IRS management stated that they agreed with our recommendations, but the management response did not specifically address this recommendation.

Office of Audit Comment: We could not determine the adequacy of the corrective action because management's response did not include the specific corrective action planned for this recommendation

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and establish a proposed completion date.

Additionally, the management response did not identify the responsible official, or include a plan and methodology for tracking the effectiveness of the corrective action.

4. Develop a centralized database accessible to all advocates that provides current information about the status of all advocacy efforts and their objectives to reduce duplication of effort and maximize the use of resources. Ensure that advocates use the database and obtain appropriate approval prior to initiating work.

Management's Response: IRS management stated that they agreed with our recommendations. The National Taxpayer Advocate and the Program Executive for Taxpayer Treatment and Service Improvements (TSI) are working to incorporate advocacy projects into the TSI database. They plan to develop a separate area for advocacy. Operating Division Taxpayer Advocates will be able to track the status of advocacy projects, recommendations, and corrective actions through the TSI database. The proposed completion date is December 31, 1999.

Office of Audit Comment: The corrective action is adequate. However, the National Taxpayer Advocate should identify the responsible official for this corrective action and develop a plan and methodology for tracking the effectiveness of this corrective action.

Controls Over the Resolution of Issues Affecting Taxpayers Should Be Strengthened

Controls over the resolution of systemic and procedural issues affecting taxpayers need to be improved.

Controls do not provide reasonable assurance that systemic and procedural issues affecting taxpayers are resolved timely and effectively. Specifically, recommendations contained in advocacy reports were not monitored to ensure that corrective actions were taken or considered timely. Also, data contained on the Commissioner's Reporting and Tracking System were not always complete or accurate.

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The status of responses to recommendations contained in advocacy reports was not always monitored to ensure that business owners take timely and effective corrective actions

We randomly sampled 20 recommendations contained in advocacy reports issued during FY 1997 and FY 1998. Our analysis showed that there was no follow-up action taken for 9 of 20 recommendations contained in the advocacy reports. For example:

- Initially, the National Taxpayer Advocate's staff could not provide us with any documentation regarding the status of corrective actions for two recommendations included in an Earned Income Tax Credit advocacy report, dated November 1997. Officials later determined the status of the corrective action after our request for information in November 1998.
- The National Taxpayer Advocate's staff referred us to the business owner to determine if a recommendation was implemented relative to a Substitute for Return/Automated Substitute for Return Program advocacy report dated June 1997.

National guidelines require that final copies of advocacy reports be submitted to the National Taxpayer Advocate's staff and the applicable business owner for review. These reports are the primary means for communicating project results to the National Taxpayer Advocate and obtaining the business owner's response to the recommendations for corrective action. Additionally, the National Taxpayer Advocate's staff is responsible for facilitating the resolution of unresolved issues.

The National Taxpayer Advocate's staff was not always provided with copies of final advocacy reports and could not always follow-up on related recommendations. In addition, National Taxpayer Advocate officials did not maintain a formal system for tracking the status of the recommendations

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contained in advocacy reports. Instead, they reviewed responses to advocacy reports from business owners and included selected recommendations in Advocacy Memoranda if the business owners did not provide an adequate rationale for not implementing corrective action.

The timely submission of advocacy reports and the monitoring of corrective actions are essential to ensuring that actions necessary to correct issues negatively affecting taxpayers are taken timely and taxpayer burden is reduced.

Data contained on the Commissioner's Reporting and Tracking System were not always complete or accurate

Advocacy Memoranda recommendations and related responses from business owners were not always completely or accurately reflected on the Commissioner's Reporting and Tracking System. We obtained 22 Advocacy Memoranda issued by the National Taxpayer Advocate during FY 1997 and FY 1998 and the related responses. Thirty-four of the 49 recommendations contained in the Advocacy Memoranda were not completely or accurately reflected on the Commissioner's Reporting and Tracking System. For example:

- Two recommendations were made in an Advocacy Memorandum related to taxpayers' rights to abatement of math error adjustments. However, only one of the recommendations was tracked on the Commissioner's Reporting and Tracking System.
- Seven recommendations were made in an Advocacy Memorandum related to customer service for multilingual taxpayers. However, the seven recommendations were summarized into one general recommendation to "...provide options to serve multilingual telephone demands by taxpayers who have limited knowledge of English."

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In addition, 33 of 49 (67 percent) responses to Advocacy Memoranda were not completely or accurately reflected on the Commissioner's Reporting and Tracking System, even though the business owner addressed the issues. For example:

- The synopsis of the Acting Chief Operations Officer's response to seven recommendations made in the Advocacy Memorandum related to customer service for multilingual taxpayers does not include the specific response to each recommendation, or the fact that functional management rejected two of the recommendations.
- The synopsis of the Deputy Chief Taxpayer Service/Compliance's response to four recommendations, contained in an Advocacy Memorandum related to issues impacting divorced and separated taxpayers, does not identify the specific recommendations functional management responded to, or the fact that they did not respond to one of the recommendations.

The Commissioner's Reporting and Tracking System was established to ensure that formal responses to Advocacy Memoranda are received.

The National Taxpayer Advocate uses the Commissioner's Reporting and Tracking System to monitor the status of recommendations made in Advocacy Memoranda, and to ensure that responses from business owners are received timely and address the recommendations. This information is required to be included in the National Taxpayer Advocate's Annual Report to the Congress.

The National Taxpayer Advocate did not establish controls to ensure that information input to the Commissioner's Reporting and Tracking System was complete and accurate. The system was maintained by one individual and the accuracy of data input to the system was not verified.

As a result, information contained in the *FY 1997 Taxpayer Advocate's Annual Report to Congress* was not always complete. In some instances, recommendations and related management responses were summarized or not included in the report. In

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other instances, the summary of management's response did not indicate that management disagreed with the recommendation. The complete and accurate tracking of recommendations made by the National Taxpayer Advocate and related responses is essential to ensuring that issues negatively affecting taxpayers are corrected and taxpayer burden is reduced.

Recommendations

5. Strengthen controls to ensure that advocacy reports containing recommendations with national implications are received by the National Taxpayer Advocate's staff, and formally monitor the status of each recommendation and related response.

Management's Response: IRS management stated that they agreed with our recommendations. The National Taxpayer Advocate and the Program Executive for Taxpayer Treatment and Service Improvements (TSI) are working to incorporate advocacy projects into the TSI database. They plan to develop a separate area for advocacy. Operating Division Taxpayer Advocates will be able to track the status of advocacy projects, recommendations, and corrective actions through the TSI database. The proposed completion date is December 31, 1999.

Office of Audit Comment: The corrective action is adequate. However, the National Taxpayer Advocate should identify the responsible official for this corrective action and develop a plan and methodology for tracking the effectiveness of this corrective action.

6. Ensure that adequate follow-up work is performed and documented to provide reasonable assurance that recommendations agreed to by business owners are implemented.

Management's Response: IRS management stated that they agreed with our recommendations, but the management response did not specifically address this recommendation.

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Office of Audit Comment: We could not determine the adequacy of the corrective action because management's response did not include the specific corrective action planned for this recommendation and establish a proposed completion date. Additionally, the management response did not identify the responsible official, or include a plan and methodology for tracking the effectiveness of the corrective action.

7. Ensure that all recommendations and related responses made in Advocacy Memoranda are included on the Commissioner's Reporting and Tracking System. In addition, periodically verify the accuracy of information contained on the system.

Management's Response: IRS management stated that they agreed with our recommendations, but the management response did not specifically address this recommendation.

Office of Audit Comment: We could not determine the adequacy of the corrective action because management's response did not include the specific corrective action planned for this recommendation and establish a proposed completion date. Additionally, the management response did not identify the responsible official, or include a plan and methodology for tracking the effectiveness of the corrective action.

A Methodology to Measure Advocacy Program Accomplishments Needs to Be Developed

Advocacy program accomplishments are not measured.

There is no methodology in place to measure accomplishments resulting from advocacy projects or other advocacy efforts. Our analysis of 12 advocacy reports or other memoranda, discussions with 13 taxpayer advocates in the field, and an official on the National Taxpayer Advocate's staff showed that there

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was no methodology in place to measure the effect of resolving advocacy issues. Advocacy reports did not contain any quantifiable information on the potential or actual reduction in taxpayer burden associated with implementing the report recommendations.

Further, our review of the National Taxpayer Advocate's Program Goals for FY 1998 showed that specific goals related to reducing taxpayer burden were not established for the advocacy program. The National Taxpayer Advocate provided the Regional/EOSCO Taxpayer Advocates with expectations of advocacy activities, but did not incorporate goals for advocacy into the Strategic Planning and Budget Process. These expectations simply restated the major activities that take place under the advocacy program, including:

1) performing Major Issue Code analysis and advocacy projects, 2) establishing an EOSCO Advocacy Council, and 3) submitting legislative and administrative recommendations.

An official on the National Taxpayer Advocate's staff indicated that measuring advocacy accomplishments had been discussed in the past, but that no system was identified that could measure the impact of advocacy efforts. The official believed that taxpayer burden and compliance is impacted by so many things that the impact of only the advocacy efforts could not truly be measured. We also discussed this issue during our interviews with taxpayer advocates in the field. They provided the following suggestions for measuring advocacy accomplishments:

- Require project development teams to include a methodology in the project report to measure the impact of advocacy accomplishments.
- Perform Major Issue Code analysis to quantify the reduction in cases over time that is attributable to implementing the recommendations.

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- Establish a methodology that can provide data on the reduction of non-PRP cases related to implementation of a recommendation.
- Measure customer satisfaction and burden reduction by performing focus group interviews of taxpayers affected by the issue.

IRS policy and sound management principles require officials with managerial or executive-level responsibilities to identify and define program objectives and goals in measurable or quantifiable terms to the extent practicable. However, in no event may a Record of Tax Enforcement Results be used to set goals.

The establishment of advocacy program goals and a system to measure advocacy accomplishments is necessary to evaluate the effectiveness of IRS advocacy efforts and demonstrate the effectiveness of the advocacy program to the Congress. Further, this information could be used to show functional management that proposed advocacy recommendations should be implemented.

Recommendation

8. Establish advocacy program goals and develop a system to measure advocacy program accomplishments consistent with IRS guidelines for managing statistics. Ideally, goals and program accomplishments should focus on the reduction in taxpayer burden attributable to advocacy efforts.

Management's Response: IRS management stated that they agreed with our recommendations. New organizational measures were drafted and are now being refined by National Taxpayer Advocate management. The Taxpayer Advocate plans to start the new measures on October 1, 1999.

Office of Audit Comment: We could not determine whether the corrective actions are adequate because the management response did not indicate whether these new measures include advocacy program goals

Opportunities to Improve the Effectiveness of Internal Revenue Service Advocacy Efforts

and measures. The National Taxpayer Advocate should identify the measures being refined. Additionally, the management response did not identify the responsible official, or include a plan and methodology for tracking the effectiveness of this corrective action.

Conclusion

The National Taxpayer Advocate has made important contributions to resolve or correct issues negatively affecting taxpayers. However, the effectiveness of advocacy efforts can be further improved by providing additional guidance and oversight to field advocates and strengthening controls over the resolution of systemic and procedural issues affecting taxpayers. Further, the National Taxpayer Advocate should develop a methodology to measure advocacy program accomplishments.

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the effectiveness of the Internal Revenue Service's (IRS) efforts to identify, evaluate, and resolve systemic and procedural issues affecting taxpayers. Specifically, we evaluated the effectiveness of the process used to identify potential issues, assessed the effectiveness of efforts to determine the significance of issues, evaluated controls over the resolution of issues, and identified and assessed accomplishments to date. To accomplish our objective, we:

- I. Evaluated whether the IRS had an effective process in place for *identifying the underlying causes* of taxpayer problems.
 - A. Assessed the methodology used to obtain and analyze input received from internal and external sources regarding potential systemic issues affecting taxpayers.
 - B. Determined the adequacy of oversight provided to field offices related to identifying potential issues affecting taxpayers.
 - C. Assessed the role of advocacy councils in identifying issues by interviewing advocacy council members in three regions and the Executive Officer for Service Center Operations, as well as an official on the National Taxpayer Advocate's staff.
 - D. Determined whether the Problem Resolution Office Management Information System contained sufficient information to accurately identify the nature and cause of taxpayers' problems by analyzing a random sample of 135 cases from a universe of 41,421 cases closed between October 1, 1997 through July 16, 1998. We reviewed 15 cases at each of the 9 local advocacy offices included in the review due to resource considerations.
- II. Assessed the effectiveness of efforts to determine the *significance of systemic issues* that require additional IRS attention and focus.
 - A. Determined whether advocacy projects focused on the most common and significant causes of problems affecting taxpayers.
 - B. Determined the adequacy of oversight provided to field offices conducting ongoing advocacy projects and assessing the significance of systemic issues.
 - C. Assessed the role of regional advocacy council members in identifying, evaluating, and prioritizing advocacy issues.

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- III. Evaluated controls over the *resolution* of systemic issues affecting taxpayers.
- A. Interviewed field advocates to identify and assess existing Taxpayer Advocate procedures for recommending and implementing actions to correct systemic problems.
 - B. Selected a random sample of 20 recommendations from 81 recommendations contained in advocacy project reports issued during Fiscal Years (FY) 1997 and 1998 to assess if Taxpayer Advocate officials determined that corrective action was taken when appropriate. We reviewed 20 recommendations due to resource considerations.
 - C. Analyzed Advocacy Memoranda issued during FY 1997 and FY 1998 to determine if the responsible functional area responded in a timely and complete manner and if the data maintained on the Commissioner's Reporting and Tracking System were accurate.
 - D. Evaluated whether the National Taxpayer Advocate effectively used the authority to issue Taxpayer Advocate Directives. (Limited work was performed due to the low number of rejected recommendations issued after implementation of this authority.)
- IV. Identified and assessed *advocacy accomplishments* to date.
- A. Determined if a methodology existed to measure advocacy accomplishments by interviewing Taxpayer Advocate officials in the National Office and the field, and reviewing 12 advocacy project reports and other memoranda.
 - B. Assessed the significance of accomplishments resulting from advocacy efforts.

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Appendix III

Report Distribution List

National Taxpayer Advocate C:TA

Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP

National Director for Legislative Affairs CL:LA

Office of Management Controls M:CFO:A:M

Treasury Inspector General for Tax – Office of Audit's Liaison, National Taxpayer
Advocate C:TA

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Appendix IV

Management's Response to the Draft Report



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 12, 1999

OFFICE OF TREASURY
INSPECTOR GENERAL
RECEIVED

1999 AUG 12 P 3 54

FOR TAX ADMINISTRATION*

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Opportunities to Improve the Effectiveness of Internal Revenue
Service Advocacy Efforts

I appreciate your report on the effectiveness of advocacy efforts within the Internal Revenue Service. During your review, you found that the National Taxpayer Advocate makes important contributions in resolving issues negatively affecting taxpayers. You also found that we could improve our overall advocacy program by increasing controls and providing better program guidance. We agree with your recommendations and are currently modernizing the Taxpayer Advocate Service to provide an independent structure and consistent program direction.

During the past year, the Taxpayer Advocate Service has been a study of modernization at work. We hired the first National Taxpayer Advocate in September 1998. He has worked closely with the modernization design and implementation teams. The new organization will have an independent management reporting structure and every state will have at least one local taxpayer advocate.

The design team analyzed staffing necessary for two critical components of the Taxpayer Advocate Service: casework and advocacy. The Chief Operations Officer transferred staffing to the National Taxpayer Advocate and we are now hiring staff for the Taxpayer Advocate Service. We have already hired most of the management team and will hire the remaining staff by October 10, 1999. We will begin Fiscal Year 2000 with a whole new Taxpayer Advocate organization.

We designed the new organization to meet the needs of taxpayers. Local taxpayer advocates will focus on casework and taxpayer problems. They will help taxpayers resolve tax account problems with the IRS. The Operating Division Taxpayer Advocates will focus on systemic problems and advocacy efforts. They will work with Local Advocates and the Operating Divisions to identify problems with existing policies and procedures and recommend solutions. They will also work on advocacy projects and make recommendations to Congress through the annual report.

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With the structure in place, we focused on developing standard guidelines and procedures. The implementation team developed a new Taxpayer Advocate Case Processing Guide. This guide will be used by all local advocates and is designed to standardize case processing procedures. A separate team drafted new organizational measures and top level managers in the Taxpayer Advocate Service are now refining them. We hope to phase in the new measures beginning in October 1999. In addition, we developed an aggressive training program for all employees in the Taxpayer Advocate Service.

The Taxpayer Advocate Service is at the implementation phase and we are planning to increase the visibility of this program. We are developing a marketing campaign aimed at increasing awareness of the Taxpayer Advocate Service. Finally, to meet the requirements of the statutes and provide easy access, Taxpayer Advocates will have separate telephone numbers, fax numbers and mailing addresses.

The National Taxpayer Advocate will continue to face challenges as the new Operating Divisions are implemented. However, we believe that placing the initial modernization focus on the Taxpayer Advocate Service will help taxpayers now and into the future.

IDENTITY OF RECOMMENDATION/FINDING

1. Provide additional guidance and information to assist local advocates in identifying significant issues affecting taxpayers;
2. Track and follow-up on the status of recommendations made to IRS national management to ensure that corrective actions are taken timely; and,
3. Establish advocacy program goals and develop a system to measure advocacy program accomplishments consistent with IRS guidelines for managing statistics.

ASSESSMENT OF CAUSE(S)

Prior to the IRS Restructuring and Reform Act of 1998 (RRA 98), the Taxpayer Advocate did not have line authority over staff working in the Problem Resolution Program. The staff reported to the local head of office. Many employees worked part time on Taxpayer Advocate cases and part time on enforcement cases. This led to inconsistencies in several aspects of program management and guidance. In addition, inadequate staff was assigned to work on the advocacy program. The result was that the program focused on casework and advocacy suffered.

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CORRECTIVE ACTIONS

As mentioned above, we are modernizing the Taxpayer Advocate Service to provide better support to our customers. The new structure directs management attention on two major program areas: casework and advocacy. The National Taxpayer Advocate provides program guidance and direction for the entire program.

Nine Area Advocates (seven for local offices and two for service centers) will manage casework. They report to the National Taxpayer Advocate and provide program guidance and support to Local Advocates. Local Advocates are located in every state and help taxpayers resolve tax account problems. All Area and Local Advocates will be selected and in-place by October 10, 1999.

The Operating Division Taxpayer Advocates will manage systemic analysis and advocacy. They will report to the National Taxpayer Advocate and be co-located with the Operating Divisions. They will provide program guidance and support to advocacy analysts located throughout the country. They are responsible for identifying systemic problems, working with the Operating Divisions to resolve them, and monitoring the results of the advocacy program. We have selected the Taxpayer Advocate for the Wage and Investment Operating Division. We will select others when the Operating Divisions are implemented.

The National Taxpayer Advocate and the Program Executive for Taxpayer Treatment and Service Improvements (TSI) are working to incorporate advocacy projects into the TSI database. We plan to develop a separate area for advocacy. Advocates will be able to share information about projects and issues can be elevated for executive review. Moreover, the Operating Division Taxpayer Advocates will be able to track the status of advocacy projects, recommendations and corrective actions through the TSI database.

IMPLEMENTATION DATES

1. Establish new organization

Proposed: October 10, 1999 Completed: _____

2. Pilot new organizational measures

Proposed: October 1, 1999 Completed: _____

3. Finalize plans for database for advocacy projects

Proposed: December 31, 1999 Completed: _____